

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

June 21, 2005

The Capital Projects and Bond Oversight Committee met on Tuesday, June 21, 2005, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Mike Denham, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Mike Denham, Co-Chair; Senator Elizabeth Tori, Co-Chair; Representatives Bob Damron, Paul Marcotte, and Jim Wayne; and Senators Jerry Rhoads and Dan Seum.

Guests testifying before the Committee: Bill Hintze, Governor's Office for Policy and Management; Jim Abbott and Steve Biven, Finance and Administration Cabinet; John Rees, Department of Corrections; Joel Neaveill, Governor's Office for Agricultural Policy; Charles Harmon, Education Department; Ken Clevidence, University of Kentucky; Warren Nash, Economic Development Cabinet; Sandy Williams, Kentucky Infrastructure Authority; Tom Howard, Office of Financial Management; and Jack Baker, Republic Services.

LRC Staff: Mary Lynn Collins, Nancy Osborne, Kevin Mason, Kristi Culpepper, Bart Hardin, and Shawn Bowen.

Representative Damron made a motion to approve the minutes of the May 17, 2005, meeting as submitted. The motion was seconded by Senator Tori and passed by unanimous voice vote.

Representative Denham called on Ms. Mary Lynn Collins, Committee Staff Administrator, to review correspondence items. Ms. Collins said members' folders included correspondence from the Council on Postsecondary Education reporting the Council's approval of one unbudgeted project for the University of Louisville; correspondence from the University of Kentucky in response to questions raised by the Committee at its April 2005 meeting regarding a UK Department of Psychiatry lease; and correspondence from the Department of Agriculture in response to questions raised by the Committee at its May 2005 meeting regarding the Purchase of Agricultural Conservation Easements (PACE) program. Ms. Collins said also included in members' folders was a notice of plan by the Finance and Administration Cabinet to use the Design-Build construction delivery method for the Wireless Information Network

upgrade; the Kentucky Lottery Corporation's monthly financial report for April 2005; and a staff update on various capital projects.

In response to a question from Representative Denham, Ms. Collins said the Wireless Information Network Upgrade project for the Kentucky Emergency Warning System was authorized in the current budget at \$13.8 million, but the Finance Cabinet had originally requested \$26 million for the project. The Request for Proposal (RFP) for this project was issued in February, prior to final enactment of the budget, and was based on a \$26 million authorization. Representative Denham asked that a representative of the Finance Cabinet appear before the Committee at its July meeting to brief the Committee on how they plan to proceed with this project, given the reduced funding.

Representative Wayne said he had concerns about the Finance Cabinet using the Design-Build method for such a huge project. He requested that a representative of the Finance Cabinet also address this issue at the Committee's July meeting.

Ms. Collins next discussed a news article in members' folders regarding structural issues at the Laurel Regional Juvenile Detention Center in Corbin. She said the detention center was closed last week due to settlement problems.

Representative Wayne asked if a geological survey was done before the detention center was built and if there is any warranty for the work that was done. Mr. Jim Abbott, Commissioner of Facilities and Support Services, said they are hiring experts to evaluate the work, do soil sampling at the site, and determine the extent of the settlement problem. He said until that information is available, he would be hesitant to speculate regarding warranty coverage. He said they will continue to investigate and will take appropriate action. Representative Denham requested that the Finance and Administration Cabinet provide the Committee with an update on this subject at its July meeting.

Representative Denham said in February 2005, Finance Cabinet Secretary Rudolph briefed the Committee about structural problems at the Elliott County prison. He asked Mr. Abbott about the status of the prison. Mr. Abbott said they hope to have addressed the major problems Secretary Rudolph identified in his February briefing by the end of the month. He said the contractor has been willing to work with them on the problems cited. Mr. Abbott said they will apply appropriate damages to the contractor relative to long-term maintenance issues to address the problems identified at the site.

John Rees, Commissioner, Department of Corrections, said they are pleased with the progress that has been made. He said they currently have 100 women at the facility in the minimum security unit, and they are preparing the rest of the facility to open July 11. Representative Denham asked Mr. Abbott and Mr. Rees to prepare an update for the Committee's July meeting regarding this project.

Representative Denham asked Mr. Bill Hintze, Deputy Budget Director, Governor's Office for Policy and Management, and Mr. Abbott to present the Finance Cabinet's monthly report to the Committee. Mr. Hintze first reported an allocation of \$561,000 from the Emergency Repair, Maintenance and Replacement Account for a roof repair project for the Office for the Blind at the McDowell Center in Louisville. He said the facility has had persistent problems with roof leaks. The roofing subcontractor went out of business before the warranty expired, and now the roofing manufacturer has also gone out of business. He said the state's recourse is limited, but it is being explored.

Senator Tori asked what the total repair cost of the roof is to date. Mr. Charlie Harmon, Department of Education, said most of the repair work to date has been done by the roofing manufacturer at no cost, but the Department has spent approximately \$50,000 as well.

Representative Wayne asked if companies bidding on these projects are required to prove that their companies are solvent and that their warranties will be good over the life of the warranty. Mr. Abbott said they require companies to be bonded during construction, and they also consider longevity of the firm. Representative Denham said no further action was required for this project.

Mr. Hintze next discussed the authorization of an emergency project at Eastern Kentucky University known as the Heat Plant Emissions Abatement project. He said the university's central coal-fired heating plant has failed twice on emissions testing and cannot be certified as being usable unless the university takes remedial action. Mr. Hintze said the remedial action recommended is the installation of a "hotbag house" at a cost of \$1.6 million. The cost of the project will be covered with surplus bond proceeds and unallocated deferred maintenance funds.

In response to a question by Representative Denham, Mr. Abbott said installation of the hot bag house will bring the facility into compliance with EPA standards.

Mr. Hintze next reported an allocation of \$430,000 from the Emergency Account to repair a roof of the Kitchen/Dining Building at Northpoint Training Center in Danville. He said the need for a roof repair was discovered during construction of a Kitchen/Dining facility improvement project.

In response to questions from Representative Damron, Mr. Hintze said the balance in the Emergency Account, as of the end of May and not including the two roof repairs being reported today, was \$7.9 million. He said the General Assembly has appropriated an additional \$2.5 million for the Emergency Account for the second year of the biennium.

Mr. Hintze then introduced Joel Neaveill, Phase II Tobacco Settlement Coordinator, Governor's Office for Agricultural Policy, and presented a project scope increase for the Phase II Tobacco Settlement Payments. This project was appropriated \$114,000,000 (\$87 million bond funds and \$27 million from the General Fund) in the 2004-06 budget. Mr. Hintze said this project is being supplemented by \$10 million from the Kentucky Burley Tobacco Growers Cooperative. He explained that while the budget bill authorized \$114,000,000, the original enabling legislation enacted in the 2000 session anticipated payments of \$124,000,000. The funds from the Burley Growers Cooperative will cover this \$10,000 gap. Mr. Neaveill added that checks have been mailed to approximately 164,000 Kentucky recipients for a total of \$124 million.

Representative Damron made a motion to approve the scope increase. The motion was seconded by Senator Tori and passed by unanimous roll call vote.

Representative Denham thanked Mr. Hintze and Mr. Neaveill, and other staff involved in the Tobacco Settlement for their hard work.

Mr. Tom Howard, Deputy Executive Director, Office of Financial Management, presented a follow-up report for Kentucky Asset/Liability Commission Project Notes, 2005 General Fund First Series. The proceeds from this issue (\$81,850,000) will pay expenditures related to the Phase II Tobacco Settlement Payments and pay for the cost of issuing the notes.

In response to questions from Representative Damron, Mr. Howard said if funds became available for tobacco payments as a result of a lawsuit in North Carolina, the project notes could be redeemed or a project could be substituted for the proceeds at little or no cost. He said because the issue has a fixed rate, and the funding cost is so low, they would recommend the latter.

Representative Denham thanked Mr. Howard for his work on the Tobacco Settlement project. He said the Office of Financial Management's efforts resulted in a 4.18% interest rate, whereas they originally thought the interest rate would be 8.25%.

Mr. Steve Biven, Director, Division of Real Properties, reported a lease modification report for the Council on Postsecondary Education in Franklin County. Mr. Biven reported that the Council is amortizing \$11,660 over the course of 13 months to upgrade the HVAC in their server room and to upgrade the lighting in their training facility. No action is required for lease modifications of less than \$50,000.

Mr. Ken Clevidence, Associate Vice President for Fiscal Affairs, University of Kentucky (UK), reported one new lease for the university: PR-8282, UK Hospital Finance. The University plans to lease 6,644 square feet at 2347 Sterlington Road in Lexington. Mr. Clevidence said the cost per square foot is \$16.40.

In response to a question by Representative Wayne, Mr. Clevidence said the University did not advertise for this space. The University already leases space in the building, and the statute permits the lease of additional space rented under the same terms and conditions (KRS 56.813 (1)).

Representative Denham asked if placing the UK Hospital Finance Office off-site will create a hardship for patients. Mr. Clevidence said the majority of the Hospital Finance's activities do not have any impact on the patients.

Representative Damron made a motion to approve lease PR-8282, UK Hospital Finance. The motion was seconded by Senator Rhoads and passed by unanimous roll call vote.

Representative Denham asked Mr. Warren Nash, Deputy Commissioner, Department for Financial Incentives, Cabinet for Economic Development, to report on a proposed Economic Development Bond (EDB) grant.

Mr. Nash reported a proposed grant of \$500,000 to the Lexington-Fayette Urban County Government to benefit Belcan Engineering Group, Inc. Belcan Engineering will provide engineering, design, drafting and analysis engineering services for the rotorcraft industry, with Sikorsky Aircraft Corporation being its primary client. The proceeds from the grant will be used to offset the cost of establishing business operations in the World Trade Center Office Tower in downtown Lexington.

Mr. Nash said the EDB grant agreement stipulates that Belcan will create 250 new full-time jobs for Kentucky residents within two years of project completion, and the company will be required to pay new employees a minimum average wage of \$24.85 per hour. Belcan will also be required to maintain these jobs for an additional three years. He said if the company fails to meet these requirements, it must pay the Lexington-Fayette Urban County Government \$2,000 per job not created or maintained.

Representative Wayne asked how the \$3 million for this project will be spent. Mr. Nash said the money will be spent on computers, equipment, and retrofitting the facility.

In response to questions from Representative Denham, Mr. Nash said Sikorsky Corporation will be Belcan's primary client, but not their only client. He said he did not know the percentage of the company's revenue that will come from that project, but they are recruiting and working with other companies to provide engineering services to the rotorcraft industry. Mr. Nash added that the company has created a partnership working with the University of Kentucky (UK) and with graduates of the University.

Representative Damron noted the fact that Belcan will provide good paying jobs. He said that UK President Lee Todd was an integral part of the discussion and the recruitment of Belcan to Fayette County, as was the Dean of the UK Engineering College.

Representative Damron made a motion that the EDB grant be approved. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

Ms. Sandy Williams, Kentucky Infrastructure Authority (KIA), reported two new KIA loan requests. The first request was a Fund A (Federally Assisted Wastewater Revolving Loan Fund) loan amendment for the Regional Water Resources Agency (RWRA) in Daviess County. RWRA is requesting an interest rate correction to its existing KIA Fund loan from 3.8% to 1%.

Senator Rhoads made a motion to approve the Fund A loan amendment for RWRA. The motion was seconded by Representative Damron and passed by unanimous roll call vote.

Ms. Williams next reported that the City of Danville is requesting a 10% increase (\$694,668) to an existing Fund A loan to make modifications to the East Danville pump station and force main. The revised loan would be \$7,641,349.

Representative Damron made a motion to approve the Fund A loan increase for the City of Danville. The motion was seconded by Representative Wayne and passed by unanimous roll call vote.

Ms. Williams reported that the City of Danville has purchased the assets and assumed the liabilities of the Junction City utility system. The city is assuming the balance of a KIA Fund C loan in the amount of \$775,000 with an interest rate ranging from 3% to 5.25%. This item did not require action by the Committee.

Representative Damron asked Ms. Williams to update the Committee on the status of the water and sewer bonded projects for tobacco counties that were approved in the last session. Ms. Williams said the grantees could receive money within the next two months. Appropriate paperwork must be completed and the project information submitted to the Committee. Mr. Tom Howard, Deputy Executive Director, Office of Financial Management, said his office is preparing for a sale of bonds in August to fund these projects.

Mr. Howard then presented two new bond issue reports: Kentucky Housing Corporation (KHC) Single Family Housing Revenue Bonds, 2005 Series E & F, \$80,000,000. The proceeds will be used to provide mortgage financing for first-time low and moderate income Kentucky homebuyers.

Representative Denham noted that the KHC bond issue was subject to the Alternative Minimum Tax (AMT). He asked what the effect on the bond issue would be if the federal government was to repeal the AMT. Mr. Howard said the AMT increases the interest rate, and is not sold subject to full exemption from state and local taxes. He said given the income level and the level of deductions, it would potentially trigger a payment of federal tax.

Representative Damron made a motion to approve the KHC bond issue. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

Mr. Howard reported a new bond issue for Kentucky Economic Development Finance Authority (KEDFA) Variable/Fixed Rate Demand Solid Waste Disposal Revenue Bonds (Republic Services, Inc. project), Series 2005, \$12,000,000. The proceeds will be used to finance the construction and equipping of existing landfills in Grant, Trimble, and Lincoln Counties.

Representative Wayne asked if this project is an expansion of the landfill in Trimble County. Mr. Jack Baker, representing Republic Services, Inc., said this project does not include any expansion of a landfill. He said the project in Trimble County involved building space within an already permitted landfill.

In response to a question from Senator Rhoads, Mr. Howard said these bonds are conduit bonds and the state has no responsibility for repayment of the bonds.

Senator Rhoads made a motion to approve the KEDFA bond issue. The motion was seconded by Senator Seum and passed by roll call vote. Five members voted affirmatively, and one member voted No.

Mr. Howard reported two follow-up reports for previously approved bond issues: Kentucky Asset/Liability Commission (ALCo) Project Notes, 2005 Agency Fund Taxable First Series, \$11,275,000; and ALCo Project Notes, 2005 General Fund First Series, \$139,635,000. These bond issues were previously approved, and no further action was required for these reports.

Mr. Howard next presented twenty-one new school bond issues with School Facilities Construction Commission (SFCC) debt service participation: Anderson County, Bourbon County (2), Christian County, Fairview Independent (Boyd Co.), Fayette County, Floyd County (2), Franklin County, Grant County, Hardin County, Hopkins County, Johnson County, Lewis County, Lincoln County, Logan County, Madison County, Marion County, McLean County, Nelson County, and Paintsville Independent (Johnson Co.).

Representative Wayne made a motion to approve the twenty-one school bond issues. The motion was seconded by Representative Marcotte and passed by roll call vote. Representative Damron abstained from the vote citing a potential conflict of interest.

Ms. Collins said there were ten locally-funded school bond issues submitted to the Committee for review this month: Bardstown Independent (Nelson Co.), Boone County, Fayette County, Hopkins County, Johnson County, Mason County, Meade County, Monroe County, Ohio County, and Webster County. She said all disclosure information has been filed, and no further action on the bond issue was required.

Also included in members' folders was the debt issuance calendar. No action was required for this report.

Representative Denham said the Committee's next meeting is scheduled for July 19 at 1:00 p.m. in Room 129, Capitol Annex.

With there being no further business the meeting adjourned at 2:10 p.m.